



Department of Justice

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JUSTICE DEPARTMENT SEEKS INJUNCTIONS AGAINST THREE PROMOTERS TO HALT NATIONWIDE BOGUS-TAX-REFUND SCHEME

Promoters of Frivolous "Section 861" Scheme Ignored Repeated Warnings to Stop

WASHINGTON, D.C. – The Department of Justice today filed lawsuits in federal courts in three states to crack down on a nationwide bogus tax refund scheme based on a misinterpretation of Section 861 of the Internal Revenue Code. Two of the suits named leading promoters of the "Section 861 argument"—Thurston Bell of Hanover, Pennsylvania and David Bosset of Clearwater, Florida. In the third case the government sued an Atlanta accountant and tax return preparer, Harold E. "Hal" Hearn, alleging that he has prepared federal income tax returns for taxpayers in 11 states that improperly claim tax refunds or report no income. The three suits were filed in U.S. district courts in Harrisburg, Pennsylvania; Tampa, Florida; and Atlanta, Georgia.

"Bell, Bosset, and Hearn have preyed on uninformed taxpayers, convinced them to pay exorbitant fees for erroneous advice, and sold them a theory that has been rejected as frivolous by every judge who has examined it," said Eileen J. O'Connor, Assistant Attorney General in charge of the Justice Department's Tax Division. "The Justice Department filed these three injunction suits because the Section 861 argument is frivolous. We will take the action that is necessary to stop people who attempt to defraud the public using this and other abusive tax plans."

The Government's court filings allege that Bell has promoted the Section 861 argument through a website on which he states that Section 861 of the Internal Revenue Code and associated regulations exempt from taxation all domestic income earned by United States citizens. The United States Tax Court has on numerous occasions rejected that argument and recently fined a taxpayer \$25,000 for asserting it. Court papers further allege that Bell sells recordings of his seminars and charges hourly fees for giving erroneous tax advice and preparing documents for clients to use in asserting the argument. The government complaint estimates that Bell may have more than 100 individual and corporate clients throughout the United States. One Bell client cited in the complaint is No Time Delay Electronics, a Huntington Beach, California-based company that has been featured in national print and television news media for refusing to withhold taxes from its employees' wages.

According to the complaints filed in Pennsylvania and Florida, another Bell client—David Bosset—improperly claimed tax refunds for his company using Bell's materials. The IRS erroneously refunded \$21,916.45 to Bosset's company but has sued to recover the refund. According to the complaint filed against Bosset in Florida today, Bosset has sold false or fraudulent Section 861-related promotional materials and has charged clients over \$100 per hour to show them how to use the Section 861 argument to falsely claim that they owe no payroll or income taxes. Recently, the complaint alleges, Bosset began preparing income tax returns falsely reporting no income for some clients, while charging them thousands of dollars for his services.

The third man sued today—Harold E. "Hal" Hearn—is an Atlanta accountant and tax return preparer. Court papers allege that Hearn learned of Bell's tax-refund scheme and paid Bell \$1,000 to

purchase materials that Hearn then used to assist his own clients in filing improper refund claims and tax returns. The government complaint notes that the IRS erroneously refunded at least \$168,782 to Hearn's clients before discovering the bogus nature of the claims.

The IRS has issued four public announcements in 2001 informing the public that the Section 861 argument is frivolous. The three complaints filed today allege that Bell, Bosset, and Hearn have ignored these and other warnings and continued to solicit clients, collect fees for erroneous tax advice, and hamper IRS efforts to collect proper tax liabilities. The Justice Department has asked the three federal courts to enjoin the three men from further promoting the frivolous Section 861 argument and to bar Bosset and Hearn permanently from continuing to prepare federal income tax returns.

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